

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

REPORT OF

TARGET MARKET CONDUCT

EXAMINATION

OF

ALLIANZ LIFE INSURANCE COMPANY

OF NORTH AMERICA

MINNEAPOLIS, MINNESOTA

BY

**THE OFFICE OF THE INSURANCE
COMMISSIONER
STATE OF WASHINGTON**

AS OF

DECEMBER 31, 1996

May 1, 2000

Honorable Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the provisions of RCW 48.03.010 et seq. and procedures promulgated by the National Association of Insurance Commissioners and the Office of Insurance Commissioner an examination of the market conduct activities has been conducted of:

Allianz Life Insurance Company of North America

1750 Hennepin Avenue

Minneapolis, Minnesota 55403-2195

The report thereon, as of December 1996, is herein respectfully submitted.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with the Office of the Insurance Commissioner and the National Association of Insurance Commissioners market conduct examination procedures.

James R. Montgomery III, AIE, FLMI, MAAA, Robbie Kriplean, CIE, AIRC, and Charles F. Taylor, CIE, FLMI, AIRC (Examiner-in Charge) participated in this examination.

I certify that the foregoing is the report of the examination, that I reviewed this report in conjunction with pertinent examination work papers, that this report is in accordance with the provisions for such reports prescribed by the Office of the Insurance Commissioner, and this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

FOREWORD

This target market conduct examination report is by exception and additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were indicated. Throughout the report, where cited, RCW refers to the Revised Code of Washington and WAC refers to the Washington Administrative Code.

SCOPE

SITUS

This examination was a Level Two Target Market Conduct Examination conducted off site.

TIME FRAME

The examination covered the company's operations for the period January 1, 1992 through December 31, 1996.

METHODOLOGY

Sampling Standards

In general, the sample for each test utilized in this examination falls within the following guidelines:

92% Confidence Level

+/- 5% Tolerance

Regulatory Standards

Samples are tested for compliance with standards established by the OIC. The tests applied to sampled data will result in an error ratio, which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as "met." The standard for agent licensing and appointment is not met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards, which look for the existence of written procedures, or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

MATTERS EXAMINED

The focus of the examination was the life insurance and annuity business, which encompassed the following areas of operations:

Marketing and sales practices	Agent licensing
Complaints	Replacement activity

HISTORY, TERRITORY OF OPERATIONS, MANAGEMENT

Allianz Life Insurance Company of North America (Allianz) was originally incorporated in Minnesota on April 17, 1896. The name was changed to North American Life and Casualty Company (NALAC) in 1981 and the present name was adopted in 1993. As Of May 1, 1993, NALAC and Fidelity Union Life Insurance Company consolidated their business to form the one company, Allianz. The company is affiliated with the Allianz worldwide group and is wholly owned by Allianz Life of America, Inc. a holding company. The ultimate parent is the German Company, Allianz A. G. Holding.

The company is licensed in Puerto Rico, Canada, the District of Columbia and all states except New York. Products are marketed by independent networks and financial institutions.

Allianz is governed by a board of directors comprised of the following members:

Lowell C. Anderson	James R. Campbell
Reverend Dennis J. Dease	Herbert F. Hansmeyer
Dr. Jerry E. Robertson	Michael P. Sullivan
Dr. Gerhard G. Rupprecht	

MARKETING & SALES

ADVERTISING

Allianz provided the examiners with advertising materials used in Washington during the examination period. One hundred fifteen (115) pieces were reviewed and the following exceptions were noted:

Six (6) pieces referred to an A. M. Best company rating of A+ without a clear explanation that such service also rates insurance companies as A++, in violation of WAC 284-30-660 (2) (a).

(See Appendix I (a))

Four (4) pieces were used to illustrate Allianz Life's advantages through its association with the Allianz worldwide insurance organization, in violation of RCW 48.30.070 (2). Some pieces use the statement "Allianz ranks among the top 10 insurance companies in the world", which may lead to the erroneous impression this applies to Allianz Life.

(See Appendix I (b))

Four (4) pieces purported to show the company's financial condition. Assets were shown but not liabilities in violation of WAC 284-23-080.

(See Appendix I (c))

Standard # 15 Advertising materials comply with Washington Advertising Regulations, WAC 284-23-010 through WAC 284-23-110.

Total Washington Advertising:	115
Items not in compliance:	14 violations in 10 items
Error ratio:	8.6%

Results: The company did not meet this standard.

HISTORY

Regan Holding Corporation (RHC), a California corporation, simultaneously on January 1, 1991 entered into two contracts with North American Life and Casualty Company (now Allianz): a marketing agreement pursuant to which certain proprietary group products (life and annuities) were to be marketed exclusively by RHC and an administrative service agreement under which RHC was to perform certain financial reporting and service functions. These services included contract issue, policyholder services, premium accounting, billing, collection and receipt of premiums and agent compensation.

RHC PRODUCTS AND GROUP MARKETING

The products that RHC marketed in Washington for Allianz were structured as group contracts. The group contract was issued out of state, and certificates were issued to Washington residents.

Use of the group policy approach avoids the more stringent state requirements for individual policies. The safeguards, which generally apply to group policies issued in Washington, were not applicable in these circumstances. The RHC products were marketed in the same fashion as individual products. Generally, the group policyholder is a sophisticated buyer who negotiates rates, policy terms and provisions, which is not the case with the RHC products.

This group scheme involved an apparent conflict of interest. The policy was issued to INCA (INSURANCE COALITION OF AMERICA), an association formed by Regan interests for the purpose of insurance. INCA is clearly not typical of a true group association, which represents and is controlled by its members. This is simply a group master policy, which Allianz in effect issued to itself (or its representatives).

Subsequent Event: Allianz Life states that they stopped selling group annuities in 1993. The company does not intend to market them in the future.

UNLAWFUL INDUCEMENTS AND UNFAIR DISCRIMINATION

As an inducement for persons to purchase these deferred annuity certificates some (but not all) prospects were offered premium bonuses in varying amounts ranging from 1% to 10% of the actual premium paid for the policy. In actuality, the bonuses were mostly illusory since they are subtracted from the cash value for 20 years from the date of issue. The bonus would not be forfeited under certain settlement options, which are rarely elected.

In one case noted by the examiners (policy # NAR 0008549), the annuitant would be 114 years old when the bonus became available. The offering of these bonuses was discretionary with the agent and the commissions were offset by amounts proportional to the percentage of bonus allowed. Thus, the smaller the bonus which an agent offered, the larger his or her commission. Such practice is in violation of RCW 48.30.150, which prohibits any special return or contract provision giving a special return.

AGENT LICENSING

REGAN HOLDING CORPORATION (RHC)

The marketing agreement between RHC and North American Life and Casualty (NALAC which is now Allianz) contains, in part, the following language:

NALAC hereby appoints Regan to recruit, train, manage and supervise general agents in the solicitation of the policies in the geographic territory specified in Exhibit A (the "Territory").

At all times during the terms of the agreement, Regan and all agents shall be properly licensed with each state or other jurisdiction and properly appointed with NALAC in each state or other jurisdiction within the territory before engaging in any activity which under the laws of such state or other jurisdiction makes such licensing necessary.

Allianz furnished a list of certificates issued (Regan Holding wrote business for Allianz during 1991 and 1992 only) in Washington during the examination period and marketed through Regan Holding Corporation showing certificate number, issue date, agent's name and other pertinent information. From a population of 258 certificates a sample of 98 was selected to determine if the writing agent was appointed on the date the certificate was issued. A comparison with OIC records revealed that seven (7) policies were written by agents who were not appointed.

RCW 48.05.140(9) authorizes the commissioner to refuse, suspend, or revoke an insurer's Certificate of Authority if the insurer does business through agents or brokers in the state of Washington or any other state who are not properly licensed.

VARIABLE PRODUCTS

The examiners requested a diskette containing all variable products issued in Washington during the examination period (1992-1996). Among other items, this listing showed contract number, insured's name, issue date and representative's name. From a population of 4,636 contracts, a sample of 104 was selected for testing. This sample included the

business written by 60 representatives. The data was sorted and filtered to produce all policies written by an individual representative on one listing. This procedure increased the scope of our test to include all policies written by a particular representative.

The lists developed by the examiners were compared with appointment certificates furnished by the company to determine whether the contract issue date preceded the date of appointment, came after the appointment expired or if the person was never appointed. This procedure was followed for each representative in our sample.

From 60 representatives in the sample our tests indicated that 19 had solicited business without an appointment, involving 67 policies.

RCW 48.18A.060 states in part, "no person shall be or act as an agent for the solicitation or sale of variable contracts except while duly appointed and licensed under the insurance code as a life insurance agent with respect to the insurer ..." The 67 policies described above were solicited in violation of RCW.48.18A.060 as well as RCW 48.17.010.

Standard # 16 Agents representing the company have been appointed prior to soliciting applications on behalf of the company, as required by RCW 48.17.010.

RHC Sample Size:	98	
Not in Compliance:	7	See Appendix II
Ratio:	7%	

Variable Products Sample:	60 representatives
Not in compliance:	18 representatives solicited 37 policies without an appointment See Appendix III
Error ratio:	30%

Results: The company did not meet this standard.

COMPLAINTS

The examiners reviewed all of the life insurance and annuity complaints received by the company during the period 1-1-92 through 12-31-96. The total numbers of complaints by year were as follows:

<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
9	11	12	8	3

The complaints did not contain any trends related to life and annuity sales and replacement activity. Four of the complaints involved a group term life product sold through advertisements to Citibank Visa cardholders.

REPLACEMENTS

Forty replacement policy files were reviewed to ascertain compliance with Washington Replacement Regulations. Twenty-three certificate replacements written through Regan Holding Corporation contained the required "Important Notice Regarding Replacement of Insurance". One file, however, contained a letter dated 7-24-95 from Allianz's policy holder service department referring to certificates issued on 1-29-92 and 2-12-92 with language stating that a bonus of \$6,776.20 (2nd. policy bonus \$4,882.43) "was applied to your certificate to help offset the surrender penalties you incurred with transfer." This letter failed to inform the certificate holder that the bonuses were not available as surrender values until the 20th policy year. Such a statement constitutes a misrepresentation of policy terms in violation of RCW 48.30.090.

No violations of the replacement regulations were noted in the files sampled.

(See Appendix IV)

Of the 23 (twenty-three) policies replaced by RHC into Allianz it is worth noting that 11 (eleven, or 48%) were subsequently replaced by American National Insurance Company through RHC producers. Legacy Marketing Group, the successor of RHC, was also the general agent for American National Insurance Company. (See recommendations)

No exceptions were noted in the remaining 17 (seventeen) files which were comprised entirely of transfers, 1035 exchanges and rollovers into Allianz variable products.

INSTRUCTIONS

1. Allianz shall discontinue using any advertisement in Washington that shows the company's rating by an advisory service but fails to include a clear explanation as required by WAC 284-30-660 (2) (a). (Page 4)
2. Allianz shall discontinue the use of any advertising material that does not accurately portray the company's financial condition. (Page 4)
3. Allianz shall ensure that all agents are properly appointed by the company and its administrators as required by RCW 48.17.010, prior to solicitation. (Pages 7 – 8)

RECOMMENDATIONS

1. The examiners recommend that Allianz refrain from issuing group deferred annuities utilizing INCA or a similar organization for the reasons discussed on page 5.
2. It is recommended that the Company consider greater oversight of administrators with duties to market and provide service. It is further recommended that the Company not provide financial incentives for selling and replacing policies. (Page 5)
3. It is recommended that the Company review its agent appointment procedures to assure that no person solicits business if not properly appointed to solicit variable or other insurance and annuity products in Washington. (Page 7)

SUMMARY OF VIOLATIONS

PAGE NUMBER	NATURE OF VIOLATION	CITATION
4	Advertising with deceptive use of rating evaluations. (Appendix I (a))	WAC 284-30-660

4	Advertising with misleading implication that the financial strength of Allianz worldwide applies to the life company alone. (Appendix I (b))	RCW 48.30.070 (2)
4	Advertising showing assets without showing liabilities. (Appendix I (c))	WAC 284-23-080
5	Unfair Practices Rebating Special return	RCW 48.30.140 RCW 48.30.150
7	Agents soliciting business without proper appointment	RCW 48.17.160
8	Agents soliciting variable products without proper appointment.	RCW 48.18A.060 RCW 48.17.010
10	(Letter dated 7/24/95) Misleading statement	RCW 48.30.090

APPENDIX I

APPENDIX I (a)

FORM #	
COO-618 Rev. 6/94	FOO-386 Rev. 7/93
F10-305 Rev. 1/93	FOO-161
Focus for the future	FOO-719 Rev. 3/94

APPENDIX I (b)

FORM #	
COO-618 Rev. 6/94	FOO-386 Rev. 7/93
F10-305 Rev. 1/93	
F10-304 Rev. 1/93	

APPENDIX I (c)

FORM #	
COO-618 Rev. 6/94	FOO-386 Rev. 7/93
Focus for the future	FOO-719 Rev. 3/94

APPENDIX II

No appointment when business was written:

American Senior Health, Inc	1 policy
Louis Drake	2 policies
Stephen Crosten	1 policy
Jay Marsh	1 policy
Randall Becker	1 policy
Michael Porfivio	1 policy

APPENDIX III

Variable Products (No appointment when business was written)

William Talbott	9 policies
James Chafee	1 policy
Mark Farsdahl	1 policy
Gary Simon	1 policy
Ronald Boyce	8 policies
Robert Degroot	1 policy
Kevin Piska	1 policy
Margo McKinney	2 policies
Peter Smith	2 policies
Joe French	1 policy
Martin Brown	2 policies
Lancelot Lu	1 policy
Joy Brandt	1 policy
Jan Main	1 policy
James Smalley	1 policy
Bruce Winter	1 policy
Lloyd Cherry	1 policy
Roger Reep	2 policies
Total (Reps): 18	(37 policies)

APPENDIX IV

(Policy files containing bonus letter)

Certificate #

NAR 0008349

NAR 0009026